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# Power and Knowledge in Accounting: Some Analysis and Thoughts on Social, Political, and Economic Forces in Accounting and Profession in Indonesia (1800-1950s)

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# POWER AND KNOWLEDGE IN ACCOUNTING: SOME ANALYSIS AND THOUGHTS ON THE SOCIAL, POLITICAL, AND ECONOMIC FORCES IN ACCOUNTING AND PROFESSION IN INDONESIA (1800 - 1950s)

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ABSTRACT

The paper provides some preliminary analyses and thoughts on long-term qualitative research project investigating the power-knowledge relations of the emergence, existence, and penetration of accounting in the social context. This first analysis is to explicate accounting and its relation to the Foucauldian power-knowledge concept.

The second analysis is that the historical understanding of the development - up to 1950s condition of accounting practice and profession in Indonesia has been moulded heavily by the issues of colonialism's legacy. It was the fact that the Dutch accounting practices have dominated even after the independence of Indonesia.

The third and fourth analyses has been stressed on some innovations of accounting knowledge through the development of the capital markets, industrialisation, and the new power of the university elite.

## Introduction

The *professional* basis of accounting knowledge and practice in Indonesia has recently been subject to serious analyses. There has been traditional concern about accounting knowledge and the profession as being portrayed as a precise, accurate, quantitative, and neutral purveyor of financial facts. This concern has been brought to public attention by the debates about whether accounting is a "science" or an "art", about accounting regulation and corporate financial scandals. For example, Sudibyo [1986], at the SEATU Conference in Singapore, questioned the basic terms of accounting and accounting in practice. Accounting , he argued, is neither an art nor a science but a technology.

Recently, in 1990 and 1992, the debates about questioning accounting knowledge and practice have again arisen. There have been several Indonesian private banking and financial companies collapses (see Kusumah, et al [1990, p.74-75]) and public opinions has accused the accounting profession of being responsible in each case. Briston [1990], Professor of Accountancy at the University of Hull, has also criticised the establishment of accounting knowledge and the profession in Indonesia which is very weak. One of his criticisms is that the accounting education system in Indonesia is fragile because of the lack of resources such as funds, lecturers, textbooks, and inadequate co-ordination (Briston, 1990, p.206).

Based on the preceding questions and criticisms, it is lamentable that so little research study has been addressed to explicate the significance of accounting knowledge and the profession in Indonesia. Robson and Cooper [1990] warned that there will be drastic consequences if we cannot understand the meaning and the significance of accounting knowledge and the profession in the development of modern business society. Similarly, Willmott [1986] has claimed that accounting as knowledge and the profession have important roles in the regulation of economic affairs in respect of the calculation of national and personal income, the costing of government expenditures, and corporate reporting to capital market. Yet, he also warns that without any appreciation of research orientations on explicating the meaning and understanding of accounting knowledge and the profession, we will lose what we have achieved to date. One of the important messages is that a clear understanding of accounting knowledge and the profession is necessary to enhancing the domination of accounting in any aspect of business society.

Two sets of concerns will be designated and developed historically in this paper. First, by concentrating on the history of accounting knowledge and the profession in Indonesia, we would seek to remedy what we understood as the rather piecemeal and overly technical character of much contemporary accounting research. A great deal of accounting research interest focuses rather narrowly on particular elements of accounting techniques and systems. Whilst the recent interest in the knowledge and practical aspects of accounting and the profession has gone some way towards remedying the overly technical and quantitative accounting (cf., Robson and Cooper [1990] and Belkaoui [1989]), there is still little understanding of the integration of power and knowledge in accounting. By focusing on the understanding of accounting knowledge and the profession in Indonesia, we have sought to analyse this integration of power and knowledge in accounting and its effects.

Our second concern is to locate the historical development of accounting and the profession in Indonesia in a social context (see Burchell, et al [1985], Laughlin [1988], Robson and Cooper [1990]). Social, political, and economic forces in shaping the development of accounting and the profession are the main aspects to be explored. With regard to Foucault's [1977] concept of the *Power-Knowledge* relations, the forces - social, political, and economic - take the form of a chain which power and knowledge utilise to encircle them in everyday life.

**Accounting and its Relation of "Power-Knowledge"**

Our main argument focuses on an historical elaboration of Foucault's concept of "Power and Knowledge" in the development of accounting and the profession in Indonesia. In an accounting context, early accounting researchers who have used a Foucauldian analysis in explicating the development and changes of accounting knowledge include Burchell et al [1980]. In particular, they preferred Foucault's idea of observing the relationships between the institutional setting of accounting and the development of accounting knowledge, and the issues as to ***how*** and ***why*** certain accounting practices were selected. Their discussions show that the development of accounting has resulted in the attribution of formal roles for accounting, first, which can be and are used to evaluate and change the accounting craft and, secondly, which can create modes of organisational control (Burchell, et al [1980]). Five years later, Burchell and his colleagues [1985] used a Foucauldian genealogical approach in conducting the case study of value-added concept in the UK. The purpose of their study was to explore some existing theories of the social nature of accounting practice using the case of the rise of interest in value added accounting in the UK in the 1970s. They adopted the assumption that accounting has an essential societal role or function. In general, the results indicated that using an historical genealogical approach, they could indicate how the value-added event arose out of a complex interplay of institutions, issues and processes. For example, they found that for the agency theorists, financial statements are viewed as economic goods for which there exists a certain demand and the production of which entails certain costs (see also Burchell, et al [1985]).

Michel Foucault, a French "archaeological-genealogical-historical" philosopher, is acknowledged as one of the great intellectuals of the post-world war II era. The major thrust of his work is concerned with the task of producing social analyses which are permeated by philosophical insight. In particular, his major concern is related to two epistemological techniques: **Archaeology** and **Genealogy**, in analysing social phenomena. These techniques has been used as a basis of his series publication of critiques of social phenomena including mental illness, sexuality, the human science, asylums and prisons (Foucault [1972, 1977]). In short, archaeological analysis is focused on the complex of rational discourse in analysing a social phenomena under investigation. Sukoharsono and Gaffikin [1992], have given some insights of Foucault's archaeological approach to explore the early development of accounting in Indonesia (For other useful insights, see also Loft [1986], Hopwood [1987], Arrington and Francis [1989], and Hopper and MacIntosh [1992]).

Genealogical analysis is concerned with "knowledge" and "power" to demonstrate that history is not linear but that it is the two processes of "descent" (Herkunft) and "emergent" (Enstsehung); it comprises discontinuities and contingencies (cf., Last [1990]).

Moreover, Foucault emphasises the ways in which "power" and "knowledge" are interconnected. According to him, "knowledge" is not only considered as the exercise of "power", but also "power" itself can operate systems which produce "knowledge". Foucault's interest is in "how power is exercised . . . rather than what is power" (Smart, 1985, p.77). *Power*, for him, is having positive meanings that are far from repression and suppression of a dominant class, state, or sovereign, but as a strategy (cf., Hoskin and Macve [1986] and Smart [1985]). In the study of micro-physics, Foucault [1977] argued that:

> ... power exercised is conceived not a property, but as a strategy, that its effects of domination are attributed not to 'appropriation', but to dispositions, manoeuvres, tactics, techniques, functionings ....
> ... power is exercised rather than possessed; it is not the 'privilege', acquired or preserved, of the dominant class, but the overall effect of its strategic positions.
> ... power is not exercised simply as an obligation or a prohibition on those who 'do not have it'; it invests them, is transmitted by them and through them; ... these relations go right down into the depth of society. (Foucault, 1977, pp.26-27).

For *knowledge*, Foucault emphasised that

> Power produces knowledge (and not simply by encouraging it because it serves power or by applying it because it is useful); the power and knowledge directly imply one another; that there is no power relation without the correlative constitution of a field of knowledge nor any knowledge that does not presuppose and constitute at the same time power relations (Foucault, 1977, p.27).

An important implication of Foucault's concept of the power-knowledge relationship is that, in his genealogical work, *Discipline and Punish* [1977], he described the shifting development of society in terms of the power-knowledge relations: from *sovereign power* to *disciplinary power*. For him, the shift from sovereign to disciplinary power is articulated in the changes in the forms of knowledge. In the 18th century, he identified sovereign power as a diminished form of power. Its subject was to punish people who represented political risk or danger. Seizure of things, of bodies and ultimately of life are some kinds of recourse in the sovereign power (cf., Miller and O'Leary [1987]). Disciplinary power is a strategic power which provides much richer procedures for training or coercing society (individual or collective).

Applied to accounting , the power-knowledge relations provide a richer view when analysing the emergence, existence, and penetration of accounting in organisations and society as a form of knowledge and a form of power relations. Hoskin and Macve [1986] studied both the late medieval developments in accounting technology and why the near-universal adoption of a discourse of accountancy was delayed until the 19th century. Using the Foucauldian power-knowledge concept, they argued that the disciplinary techniques of elite medieval educational institutions produced textual writing (including the new `alphanumeric' system) which could then be applied to the formulation of accounting advances. Loft [1986] provided another example of the adoption of the power-knowledge relationship. In particular, she challenged the views of accounting which hold it to be a purely technical matter outside the realm of society. Using the case of cost accounting in the UK from 1914 to 1925, she demonstrated that cost accounting in the UK has played diverse roles in social and practical life. One of her findings is that cost accounting has been brought to "prevent profiteering and to provide a basis for setting the prices of contracts for items for which there was no clearly identifiable market price" (Loft, 1986, p.165). Subsequently, Miller and O'Leary [1987] investigated the emergence of the discourse and practice of standard costing and budgeting within the wider context of national efficiency in the USA at the turn of the century. Again the power-knowledge relations came to play; one of their findings is that national efficiency was an aggregate of individual efficiencies and manageabilities.

From the preceding explanation, it is apparent that the Foucauldian concept of power-knowledge relationships has been a preferred approach to uncover the deep meanings of accounting in the organisational and social context (see also Hoskin and Macve [1988], Knights and Collinson [1987], Amstrong [1987], Hopwood [1987], Robert and Scapens [1990], Murray [1990]). It is also the fact that the assertion of accounting as a form of the power-knowledge relationship constitutes a radical challenge to traditional views and looks at accounting in action form a wider perspective.

## The Problematic History of Accounting Knowledge: The Issues of Power and Colonialism's Legacy in Indonesia

Over the centuries, Indonesia has been colonised by the Spanish, the Portuguese, the British, the Dutch, and the Japanese. Amongst them, the longest colonial rule was that by the Dutch - for about 350 years. In order to maintain their dominance during colonisation, the Dutch used political and economic forces to starve

Indonesians in any effort (e.g., from education, from political significance, and economic and culture developments). They exploited Indonesians for their cheap labour. The development of teaching education was never supplied to Indonesians, other than at the elementary and secondary schools. Higher education was primarily for the Dutch in Indonesia. All important political and executive positions were held by the Dutch, whereas the Indonesians were employed in lower or insignificant position in any private or public business activities. Indonesian economic activities were confined to small businesses, usually family-owned or family partnership. As a consequence, after the Indonesian independence in 1945, there was an inadequate economic infrastructure and insufficient trained personnel to manage the economy and the nation.

It was in the period of Dutch colonialism that accounting in Indonesia emerged. Sukoharsono and Gaffikin [1992] have argued that the early establishment of the Dutch East Indies Company [1609], undoubtedly, is a starting point in the adoption of modern bookkeeping. At the time, a general accounting office had been established in Bantam. The office was particularly to provide financial information to the Governor General of the Dutch Company to assist in managing the company activities (Sukoharsono and Gaffikin [1992, pp.15-16]). They also argued that as the commercial activities of the Dutch company increased, financial record-keeping became the an important part of the reporting system. This system was primarily needed to provide for "(1) proper planning of revenues and expenditures and managing of a plan, (2) establishment of accountability for those with whom the company resources were entrusted, and (3) a report to the members of the company on the proper management of using funds" (p.12).

Even though accounting had existed since 1609 there were very few developments in the use of accounting techniques as part of systems of control until the 1800s. As stated by Gleam [1981, p.244]), little progress had been indicated in the further development of accounting techniques and systems of control during the Dutch colonialism periods of 1620 to 1740. He argued that the weakest feature of accounting, from a present day point of view, was the maintenance of the general accounts and hence the timeliness of balance-sheets (cf., Sukoharsono and Gaffikin [1992]. To prepare the accounts and the balance-sheets, the company took three or four years. This is conditioned was exacerbated by the fact that this was little concern by the Dutch company administration.

However, after 1800, there was considerable progress in the development of accounting techniques and systems (Laanen, 1980). The knowledge base of accounting assumed an increasingly important role associated with the development and innovation of the social economy of Indonesia. One of the most fascinating documents tracing the advanced development of the knowledge base of accounting is the changing policy of the Dutch government in Indonesia regarding financial institutions in 1824. This new policy brought to the establishment of the first two big financial institutions: Netherlandsche Handel-maatschappij (NHM), registered on 7 Feb

1825, and the Javache Bank, constituted on 24 Jan 1828 (Furnivall, 1939, p.98 and p.102). Laanen [1980] stated that the development of these two institutions, primarily the Javache Bank, led to the extensive demand for money and capital markets. Various banking services, such as loans, deposits, promissory notes and savings, were introduced. Until 1850, the Javache Bank remained the only banking institution providing credit to traders and agricultural companies.

With the large increase in the activities of financial institutions in 1850's[1], there was considerable development in accounting techniques and control systems. Greater accounting knowledge was recognised as having an important role in commercial activities. Managers of banking businesses recognised the importance of identifying the sources of their revenues. These included revenues from export-import services, bank charges, interest, and other sources. They also recognised the usefulness of recording expenditures, not only by the source of revenue, but also by the organisational unit incurring them (Laanen, 1980).

However, it is very difficult to say how far the development of and innovation in accounting knowledge may have advanced the indigenous people of Indonesia. Thus, although by 1825 advanced development of accounting techniques and control systems existed, they only did so for the Dutch and foreign companies. This is main due to the fact that, during colonialisation, Dutch economic policy restricted Indonesians from building large businesses. They only allowed Indonesian to have small businesses. Abdullah [1978] expressed the point of view that the Dutch colonial policies damaged the social structure of Indonesian culture, politics, and economy. All strategic businesses, such as bankings, the sugar industry and other agricultural enterprises were maintained by the Dutch power.

**Innovations in Indonesian Accounting Knowledge**

During the first decade of the twentieth century and closely associated with the increase of banking capital markets, especially in the commercial bankings[2], significant innovation in both accounting and management practices of the Dutch government occurred in Indonesia. The accounting innovations stemmed from the appointment of the first governmental accountant, Van Schagen, in 1907, charged with opening the State Audit Agency (Abdoelkadir, 1982, p.29). The primary concern of the establishment of the Audit Agency was to assist the Dutch government in managing financial flows of governmental enterprises and by 1915 the Agency was actively operating and had set up the necessary accounting control systems to manage financial activities of the enterprises. In light of the complex network of the Agency's practices in financial matters which were linked to other changes in practices of government activities, these innovations had considerable significance. This is evident in the linkages and relays established between the requirements to administer and keep books of accounts in economic and financial activities, the emergence of pedagogic mechanisms for instructing unit activities in the mechanics of accounting knowledge, and the ways of representing the significance of accounting techniques in control systems.

The influences of the Dutch government's initiative to establish the Audit Agency and the consequent innovations of accounting were not restricted to the governmental sectors but also extended to the private sector. In 1918, three years after the operation of the Audit Agency commenced, the first public accounting office was founded by Frese and Hogeweg (Abdoelkadir, 1982, p.29). Thus, the need for independent audits of those entities categorised as big enterprises seems to have become apparent.

The emergence of the first public accountant in Indonesia is an extremely significant development and some of the reasons for it are worth noting. This is especially true if a link is drawn between the development of public accountants in Europe, especially in the Netherlands, and Indonesia. The development of the Industrial Revolution in the 18th century in the Great Britain, then spread out into the Netherlands and created the demand for public accountants. In 1896, the increased demand for accounting practices in the Netherlands resulted in the foundation of the Netherlands Institute of Accountants.

> It was burgeoning of the Industrial Revolution that created the demand for accountants ... The new works were much more labour-intensive than the craft workshops that preceded them and many cases the investment needed was to large for an individual or small group. These new companies needed more sophisticated bookkeeping and also since numbers of shareholders were involved, an independent audit (ICAEW, 1980, p.8).

It is possible to argue, on the basis of the above statements, that the development of the profession is seen to emerge spontaneously from the growth in size of organisations. Because organisations grew in size, more sophisticated methods of internal accounting in the control systems were needed; while, at the same time, the diffusion of share ownership required by the expansion of the organisations created a demand for an independent audit. Thus. in respect of the development of the first public accounting firm in Indonesia, the firm is seen to emerge spontaneously from the growth of the Dutch government's financial complex-network. It is evident that the Industrial Revolution in Great Britain spreading out to the Netherlands was one factor, as it brought into the existence the complex modern industries of the Dutch government in Indonesia (cf., Furnivall, 1939). The extent of the scope and the complexity of the modern industries invested by the Netherlands and other European countries in Indonesia can be seen from in Table 1 which provides a summary figure of the industries from the periods of 1990-1940.

TABLE 1: FOUNDATION OF INDUSTRIES BY EUROPEAN FIRMS

| INDUSTRY | NAME OF FIRM | YEAR | INDUSTRY | NAME OF FIRM | YEAR |
|---|---|---|---|---|---|
| Candles | NI | 1899 | Coal Briquettes | NI | 1923 |
| Iodine | NI | 1904 | Rail Road Equipt | Rhein-Elbe-Union | 1923 |
| Rubber Vulcan. Plant | NI | 1911 | Plywood Chests | Natar | 1926 |
| Oxygen | NI | 1914 | Bicycles | Hima (S.L.Manson & Co) | 1926 |
| Carbone Bisulphite | NI | 1915 | Assemby of Car | General Motors | 1927 |
| Washing-Toilet Soap | NI | 1916 | Beer | NI | 1931 |
| Ink and Glue | NI | 1917 | Biscuits | Hoho Biscuit Fact. Ltd. | 1932 |
| Super Phosphate | NI | 1918 | Cigarettes | FAROKA | 1932 |
| Paint | NI | 1919 | Vermicelli,Macaroni | Eersle Ned.Ind | 1933 |
| Cocaine | NI | 1919 | Beer | Archipelbrouwerij | 1933 |
| Surgical Dressings | Eersly Ned.Ind | 1921 | Weaving | Preanjer Bontweverij | 1933 |
| Weaving | Van Houten Steffan | 1922 | Soap | Unilever | 1934 |
| Cigarette | BAT Company | 1923 | Ink and Glue | Talens | 1934 |
| Tanning | Wonocolo | 1923 | Paint | Lindeetevws-Pieter Schoen | 1935 |
| Paper | Padalarang | 1923 | Tyres for Car, Bike | Goodyear | 1935 |

Notes : NI = The Netherlands Indies
Source: Adapted from Segers [1980]

The existence of new industries in Indonesia created a demand for accounting knowledge and practices to be developed. Segers [1987] has indicated that accounting during the industrial innovation 1900-1940 in Indonesia was used in many aspects of control within the companies. A number of accountants were sought to work in the Tax office, Audit office, treasury, and internal control (cf., Abdoelkadir, 1982, p.29). Unfortunately, during 1910s-1920s, there was a lack of accounting knowledge in formal education. To fulfil the demand for accountants, foreign accountants particularly of British and Dutch were sent to Indonesia.

**The Dutch Capital Market and Accounting**

As new industries developed during the periods of 1900-1940s, the Netherlands' banks and the foreign banks began to play a major role in supplying short-term export-import finance and long-term finance for fixed capital (Furnivall, 1939). At the time, the banks were organised to meet the distinct demands of traders and industrialists. For example, there existed the Javache Bank, the NHM, and the NIEM which operated in relation to the general trading and agricultural sectors. Activities of foreign banks, Chinese banks and English banks, only took place in relation to export-import trading activities and to the foreign owned states (Arndt, 1966). There were also certain rules imposed on the indigenous bank, Bank National Indonesia (BNI). The BNI, was established in Surabaya (East Java) 1925 and was limited in operation during the colonial periods to being allowed only to operate for the development of indigenous traders and small industries (Laanen, 1980).

In contrast to the growing industries and banking systems during 1900-1940s, there was an increasing strain created by the lack of skilled capital investment management. Bankers traditionally gave loans to industrialists with unselective qualifications. And they also lacked the technical expertise to become closely involved with industries which needed financial assistance (cf., Laanen [1980] and Segers [1987]). Consequently, after 1919, a series of newly established industries in Indonesia were liquidated (Segers, 1987). The blast furnace industry was closed down in 1921 and the carbon disulphide and sodium bisulphite industries temporarily halted. Moreover, liquidations also took place in the iodine, candle and rubber goods industries. The lessons which bankers drew from these failures influenced their conception of lending requirements. It was considered that the industrialists who needed long-term loans should supplement a source of industrial expertise with advice on the long-term profit potential of their investment from the professionals who usually were engaged by the banks as consultants (cf., Furnivall [1939], Laanen [1980], and Segers [1987]). In other words, the bankers sought security for their long-term loans in precisely the kind of expertise which the bankers considers not to be their business. Thus, accounting techniques and control systems became one of the important lending requirements.

The implementation of lending security for long-term loans by industrialists in Indonesia was one of the most important steps in the development of accounting knowledge. Significantly, the Dutch government in 1924 issued the Commercial Law setting out the requirements of accounting by companies established in Indonesia (Samidjo, 1985, pp.254-258). The importance of the Law for the development of accounting is that a company by regulation should recognise and provide accounting as a means of corporate control.

**Industrialisation and Accounting**

Before examining the development of accounting in relation to the industrial expansion it is worth noting the pattern of corporate investment in Indonesia. A significant feature has been that the history of investment in the corporations in Indonesia has mainly of Western origin. Indonesian and Chinese business organisations have tended much less frequently to give rise to large concerns. The question arises as to why the Indonesian, indigenous forms, in particular, did not develop in their own fashion in this area, for example, banking systems, industrial manufactures, and accounting. It is argued that all of these were determined by the Dutch colonial intervention.

The modern industrial sector in Indonesia, during the Dutch colonialism, began in 1900s (Vandenbosch, 1942). Before 1900, there was a relatively small investment in industrial manufacturing. Where it existed it was found almost entirely in seasonal cottage activities, for example, rice milling (cf., Furnivall, 1939). Mansvelt [1977] indicated that before Western investors came to Indonesia in 1900s, little progress could be made to enhance industrial activities. Superficially, after 1900s Western corporations in Indonesia had in common the fact that funds are brought together for the production of goods and services with a view to making profit.

An early sign of the new movement in modern industry in Indonesia is a change in the attitude of the Dutch government to agricultural production and investment orientation. The year of 1904 was an important time to witness the early change: Treub, the Director of the Botanic Gardens, suggested that the various activities of the Dutch government in respect of agriculture should be brought to enhance economic progress (Furnivall, 1939, p.304). This suggestion led in 1905 to the formation of the Department of Agriculture intended to work on broader scope dealing with industry and commerce. As a result, a number of foreign private enterprises was invited to invest their money in various activities dealing with agricultural and other productions. The table below (Table 2) sets out the development of capital value of investment in Indonesia by foreign private enterprises based on nationality.

TABLE 2: CAPITAL VALUE OF INVESTMENT IN INDONESIA
BY FOREIGN PRIVATE ENTERPRISES' NATIONALITY
1922 AND 1940
(In fl. 1,000,000)

| PRIVATE ENTERPRISES | SUGAR | | OTHER ESTATES | | OIL AND OTHERS | | TOTAL | |
|---|---|---|---|---|---|---|---|---|
| | 1922 | 1940 | 1922 | 1940 | 1922 | 1940 | 1922 | 1940 |
| Netherlands | 322 | 420 | 545 | 1,074 | 1,290 | 1,160 | 2,159 | 2,634 |
| British | - | - | 245 | 200 | 55 | 260 | 300 | 460 |
| American | - | - | 28 | 100 | 7 | 195 | 35 | 295 |
| Others[1] | - | - | 127 | 150 | 18 | 100 | 148 | 250 |
| Total | 322 | 420 | 945 | 1,524 | 1,370 | 1,715 | 2,640 | 3,639 |

Notes : 1 Others: Belgium, Japanese, Germany, Swiss, and Italian
Source: Adapted from Mansvelt [1977]

Together with this growth of capital investment in Indonesia, there was a growing recognition of the necessity of financial reporting in order to determine the existing activities of the government and foreign enterprises. Obviously accounting calculations were necessary to facilitate that reporting in financial terms by enterprises. It was through the issuing of the 1924 Commercial Law, that the calculative routine of accounting became recognised as being of importance to the control systems in enterprises. Thus, the Law can be seen to have helped the enterprises by providing the means for thinking about calculating and placing controls upon the enterprises' actions.

**The New Power in Accounting**

In order to draw the connection between accounting in education and practice during the Dutch colonialization in Indonesia, it remains to specify the range of ways in which the new forms of accounting knowledge developed and the kinds of power-knowledge relations which were set in play. By the turn of century, the school system in Indonesia, which had begun with the creation of teachers' training colleges about 1850, had made little progress (cf., Dahm [1971]). Similarly, not much progress in the development of accounting education had been made until 1925. An early sign of the new power in accounting knowledge in Indonesia was on 20 March 1925 when the "Bond van Vereninging vor Handel Onderwijs" (Trading Teachers' Association) founded the formal training course of bookkeepers in Semarang (Abdoelkadir, 1982, p.29). Some reasons behind the establishment of the training course were to meet the needs of the Dutch business activities and foreign investors and to provide bookkeepers with additional knowledge related to the opening of the Stock Exchange Agency in Semarang and Surabaya [1925] by the Dutch government (cf., Yunus, 1990). In this course, the systems of accounting knowledge were introduced and classified into two categories: Bond A and B certificates. The Bond A certificate course were primarily intended to study the practice of small trading companies, whereas the Bond B was that of large trading and industrial companies (Briston, et al [1990, pp.147-148). Sembiring [1984] stated that there was growing recognition of the training course of the Bond A and B certificates and demand for the holders was high in order to meet the needs of business community. It indicates that a new power in accounting came to the age by introducing the formal training system at the time.

**The Japanese Interregnum 1942-1945**

Even before the Japanese began their southward drive in the 1940s, they had revived Indonesian hopes that the Pacific War might lead to independence for the archipelago (Dahm, 1971). In March 1942 the Japanese captured Indonesia and imprisoned the Dutch. At the same time, the Japanese occupation led to changing policies in economic matters. In accounting there was a significant development during the early years of the Japanese occupation. Hadibroto [1982] has indicated that in early years of the Japanese occupation, a large number of vacancies opened up to indigenous Indonesians primarily in the Ministry of Finance Office to replace the Dutch who had previously dominated. As a consequence, the demand for accounting training programmes was high (cf., Briston, et al [1990], to increase the knowledge of the employers. It is very interesting to see that the appointment of indigenous Indonesians to fill the vacancies had advantages. The first advantage is that the Indonesians had the power to work in their own right in the management and administration of financial policy in the Ministry of Finance Office. In Foucault's [1980] terms, the power of formal work became a control tool, "working to incite, reinforce, control, optimise and organise the forces under it a power bent on generating forces, making them submit, or destroying them". The power is expressed in the fact that the indigenous Indonesians who were engaged in the Ministry of Finance Office could organise themselves in the discipline of accounting practice. The second is that through the training program, accounting became the discipline to be recognised as the agents of knowledge. We see that "the body [of the training programme] ... involved in a political field; power relations have an immediate hold on it; they invest it, mark it, train it, torture it, force it to carry out task, to perform ceremonies, to emit signs" (Foucault, 1977, p.25).

To further support this contention, in the accounting training programme four distinct courses were offered by the Japanese system: Course A, B, C, and D.

1. Course A: For the post of Assistant-Inspector for the Ministry of Finance, the applicant had to be a lawyer and had to undergo six months of training.
2. Course B: Initially divided into Course B-1 for Tax Controllers and Course B-2 for Tax Officers, the

courses were later merged into a single course. Applicants had to be high school graduates, and their training lasted one year.

3. Course C: For a position as an Assistant Accountant, an applicant had to be a high school graduate and undergo three years of training. Completion of the course of Assistant Accountant was equivalent to obtaining a Bachelor of Arts degree.

4. Course D: For a position as bookkeeper, applicants had to graduate from Middlebare Handelschool and complete an additional year of training. Satisfactory completion of course D was equivalent to completion of Bond B (Abdoelkadir, 1982, pp.30-31).

The four distinct courses gave an impetus to the need for the further development of accounting in Indonesia. Hadibroto [1982], an alumnus of the course, stated that this was an invaluable step for indigenous Indonesians, to learn new knowledge of accounting, and, through the course, much knowledge, for example, taxation, auditing, and other accounting techniques, were introduced.

However, in respect of the Japanese concern with the political power in Indonesia, it soon became apparent (in the week after their successful occupation) they were less concerned with the future political and economic development of Indonesia than with their intention to fully occupy the archipelago. "Indonesians had jumped from the frying-pan into the fire", as Dahm [1971, p.83] stated. The Japanese main objective was to exploit all the Indonesians had as quickly and fully as possible. Returning to the accounting training programme, no more courses were given and allowed for enhancing accounting knowledge of the Indonesians by the year 1943. The reason was that there was a lack of financial support from the government, so that the courses were discontinued and the final examination was given in the following year, 1944, to those who took course in the level C and D only (Abdoelkadir, 1982, p.31).

**The New Power of the University Elite**

The Second World War provided an initial impetus to a new way of life for the Indonesians. On 17 August 1945, the dream came true and Indonesia declared its independence. At the same time, Indonesia gradually began to nationalise the Dutch enterprises which were under the Indonesian government's control. New political and economic policies were issued by the government to change those of the Dutch's legacy.

The notion of the new power in accounting arises again in respect of the formal education of accountants through university study. Chronologically, it would appear that a significant power in accounting knowledge took 'place when the first accounting programme was offered by the University of Indonesia in 1952/1953 (Yunus, 1990, p.36). The programme was set up to meet the demand for accountants in the business community. By the establishment of the accounting education system in the university, the production of accounting knowledge and professional communities created a power in shaping the conduct of business and the professional mobilisation.

> Formalized accounting knowledge can be seen as a condition for the possibility of the professionalization of accounting, and that professionalization in turn changes the conditions underlying the elaboration and

development of accounting knowledge (Burchell, et al, 1980, p.8).

It is important to note the elaboration and development of accounting knowledge in Indonesia through the university's formal institution. By the following year of 1952, there were several universities offering an accounting programme: STIKN in Jakarta (1957, now STAN), Pajajaran University in Bandung (1961), Sumatera Utara University in Medan (1962), Airlangga University in Surabaya (1962), Gadjah Mada University in Yogyakarta (1964), Brawijaya University in Malang (1977) (Foo, 1988, p.128). The main impact on the establishment of formal accounting programmes in the universities is that together the institutions and the abstractions of accounting knowledge develop an essence of functional claims and pretensions. As has been stated in the Indonesian literatures elsewhere, it is the fact that we are led to believe that accounting essentially concerned with the provision of relevant information for decision making in terms of financial matters.

The existence of accounting knowledge and its power in the formal education system (in the universities) was never a sufficient condition for its implementation in business enterprises and social actions. Before 1954, even with the accounting knowledge established through the University of Indonesia, it was not possible for indigenous Indonesians to qualify as professional accountants. The only way for them to obtain the status of professional accountant was to study in the Netherlands and become members of the Netherlands Institute of Accountants (Foo, 1988, p.128). This indicates that the Dutch accounting practices still dominated in the early decades after the Independence of Indonesia.

By the enactment of Law No. 34, 1954, the Indonesian government regulated concerning the use of the title of "AKUNTAN" (ACCOUNTANT). It was by this Law of 1954 that a standardised body of knowledge in accounting was fully recognised.

> Article 1
>
> By not cutting the provision in the official salary regulation for the various functions in the State Accountancy Service and in the Tax Accountancy Service, the right to use the title of "Akuntan" ("Accountant") either with explanation or addition or not, is only attributed to him who is in the possession of an accountant license conform the provision and on this law.
>
> Article 2
>
> With the license mentioned in Article 1 is meant:
> a. a license which is attributed by a state university or another higher education body which is founded according to law or is recognised by the government, as a token that the accountant education in the higher education body mentioned is finished with good success (Law No. 34 1954) .

One of the most fascinating sentences of the 1954 Law concerns the interrelations between accounting, the education body (the university), and the government. Rather than having three independent entities, these entities could be viewed as interdependent and mutually supportive sets of practices whose linkages and boundaries were constructed at least in the early stages out of concern to elaborate and regulate the use of the terms of accounting and accountant in Indonesia. The terms accounting and accountant could only be used to refer to responsible persons with the proper skill and knowledge. Through the 1954 Law, the public and societal use of terms were privileged.

Another interesting expression in the 1954 Law is that accounting was seen to occupy a strategic position in the sphere of knowledge and practice in society. Accounting (accountants) was therefore in strong position to interpret and recommend any activities related to the accounting practices. It seems that accounting (accountants) was being recognised by the government on behalf of the social community as representing a body of professional expertise.

> In the last decades the function of an accountant has had a meaning which is becoming ever more important for the society (Addendum of the State Issue No. 705, 1954).

This is also a strong argument by the law that accounting has been claimed to be an important body of knowledge in society. This recognition arose from the belief that accounting as a discipline had contributed a particular knowledge to the business community. For example, the State Issue No. 705, 1954 described that

> It is caused by the more difficult economical relation, the aggravated competition, and the increase of the taxes of the entrepreneurs of traders and industries, so that there is more felt the need for information and advice of the experts [accountants] in order to achieve an improvement in the system of administration and in the control of the enterprise, a more correct "cost-price calculation", and the implementation of the principles of the business administration (Addendum of the State Issue No. 705, 1954).

Thus, the form of regulation of accounting in the 1954 Law deliberately constructed a body of knowledge to penetrate into the wider range of the society. For business activities in society, it can be argued, that it was through the techniques of accounting, that actions to improve and control the system of business information were made visible . More significantly perhaps, it made the accounting and the business communities much more aware of their interdependence and mutual support. For accounting knowledge, as a discipline in the university, it was through the regulation of accounting, that those with the (accounting) knowledge were able to exercise their power through influencing government policies concerning the main body of accounting knowledge. Given the relative interdependence between accounting, the university, and the government, the significance of this for the development of accounting was more and more needed by the society.

**Summary and Conclusion**

A number of endeavour have been undertaken in this analysis and reflection on accounting knowledge and practice in Indonesia. First, the interaction between accounting and its relation to the Foucauldian **power-knowledge** concept has been analysed. This analysis provides a richer view enabling a deeper interpretation and analysis of the emergence, existence, and penetration of accounting in organisations and society as a form of power and a form of knowledge.

Secondly, with the case of accounting in Indonesia, the paper then analysed the historical understanding of the development - up to 1950s - and the condition of accounting knowledge and practice in Indonesia. It is interesting to note that the development of accounting in Indonesia cannot be separated from the colonisation epoch. The establishment of a general accounting office by the Dutch Each Indies Company in 1609 was a starting point in the adoption of modern bookkeeping in Indonesia (Sukoharsono and Gaffikin, 1992). However, it was not until 1800s, that the existence of this practical knowledge was of much consequence. The knowledge base of accounting played an increasingly important role in the business society when the two financial institutions: NHM (1825) and Javache Bank (1928) started to operate in Indonesia supplying the demand for money and capital markets.

Thirdly, some innovations of accounting knowledge in Indonesia during the early 1900s have been indicated. The changing of the Dutch government policies in Indonesia in respect of the capital markets and industrialisation created a new movement in business activities. In looking at such movement, it has been argued that a way of seeing accounting as having substantially contributed to the business community has been made possible. Accounting has been seen as having contemporary modes of technical calculation for financial decision analysis.

Fourthly, the paper also provided some analysis on the way of seeing accounting as a form of knowledge-power relations in the

1950s through the formal university education. By the adoption of the formal education in the university (1952/1953), accounting became a possible condition to change and enhance the elaboration and development of accounting knowledge in Indonesia. Subsequently, by the enactment of the 1954 Law, accounting has come to penetrate into the wider ranges of society.

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Notes:

1). The large increase in the activities of financial institutions in 1850s has been indicated by the growing various banking services offered (e.g., introducing giroes, deposits, short and long term loans, interests, etc.) and several banks founded (NHM [1924], Javache Bank [1828], Netherlansch-Indische Escompto Maatschappij [NIEM-1857], Netherlansch-Indische Handelsbank [NIBH-1862], The Rotterdamsche Bank, The Internationale Crediet-enhandelsvereniging Rotterdam, An Agent of the Chartered Bank of India, Australia, and China [around 1870].

2). There ~~has been~~ was an investment boom in the first decade of the 20th century in export production (see Mansvelt [1977]) and lasted untill 1930s (see Table below).

THE EXPENDITURE ON FIXED ASSETS AND EXPORTS

(In Fl. 1,000,000; yearly average)

| | Expenditure on Fixed Assets | | Total Indonesian Exports | |
|---|---|---|---|---|
| Periode | At Current Prices | In Real 1913 Prices | At Current Prices | In Real 1912 Prices |
| 1910-11 | 94 | 100 | 482 | 550 |
| 1912-14 | 104 | 131 | 652 | 648 |
| 1915-18 | 134 | 97 | 778 | 745 |
| 1919-21 | 292 | 148 | 1,877 | 1,068 |
| 1922-26 | 222 | 156 | 1,499 | 1,044 |
| 1927-30 | 278 | 215 | 1,479 | 1,275 |

(Adapted from Mansvelt [1977, p.20])